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'More carrot than stick', British Economic Warfare and Spain, 1941–1944

Abstract

During the Second World War, economic factors became a central aspect of Spain's relations to both Britain and Nazi Germany. In 1940, when the Franco regime was on the brink of joining the war on the side of the Axis, Britain tried to use Spain's dependence on imports from the west to convince Franco to retain his country's neutrality. Although, at the time, British 'economic appeasement' was not a major factor in the failure of German-Spanish negotiations, it contributed to Spain's very gradual detachment from Nazi Germany over subsequent years. Between 1941 and 1944, the focus of British policy towards Spain moved from keeping the country out of the war to restricting the services Spain rendered to the German war economy. Franco's sympathies for the Nazi regime and the economic and financial benefits of continuing trade with Germany made British and US economic warfare activities however only a partial success.

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Sagittarius[1]

The other side the Pyrenees
Where leagued with all our enemies
Franco exterminates at ease
The 'Red' Republican,
His Fascist regime we support
For General Franco is a sport
A caballero, or for short
A Spanish gentleman.

True, Spain was to the Axis sold
There Nazi murder planes patrolled
And there, the world need not be told
Italians also ran,
But though some Spanish wish us ill
We cultivate New Spain's goodwill
The Generalissimo is still
A Spanish gentleman.

The Swastika above Tangier
Just hoisted with a Spanish cheer
Does not officially appear
An anti-British plan
Though when we ask what it may mean
(Arriving later on the scene)
The answer is a Tangerine
From the Spanish gentleman.

We do not care to make a fuss
With someone who is 'one of us'
So fresh assistance we discuss
and joint proposals scan
But while some circles still acclaim
That hoary diplomatic game
Most Britons have another name
For the Spanish gentleman.

In March 1941, one poetically inclined civil servant in the Board of Trade clearly drew her own cynical conclusions about the official attitude of the British government towards the Franco regime and the policies it applied. Yet, 'Sagittarius' was not simply the expression of one lone critical voice

[1] Handwritten poem by Miss Chidley, Board of Trade, 22 March 1941, Public Record Office, Commercial Relations and Treaty Department of the B[oard of] T[rade] 11/1517.

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in the British administration. Not only did the poem reflect the disgust felt by many British citizens about the seemingly 'soft' treatment of a hostile and dictatorial system, but it was also symbolic of the fact that members of the British government up to and including the Cabinet disagreed with the official line. In December 1940, three months before the poem was written, this disgust had been most poignantly expressed by Hugh Dalton, a leading member of the Labour Party and the Minister of Economic Warfare in Prime Minister Winston Churchill's Cabinet since May 1940. Attacking both David Eccles, the representative of the Ministry of Economic Warfare (MEW) in the Iberian Peninsula, and the former Foreign Secretary and Home Secretary Sir Samuel Hoare, appointed as British ambassador on special mission to Spain in late May 1940, he described their attitude towards General Francisco Franco's regime as going 'far beyond appeasement' down to a level of 'sheer abasement'.[2]

At the centre of the controversy between Dalton and Hoare, which had erupted soon after both had been appointed to their respective posts, stood the question of how to treat Spain economically. Particular attention lay on the extent to which Britain's economic blockade of Axis-controlled Europe should be applied to Spain whose regime on 12 June 1940, as France was about to fall, declared non-belligerency and seriously considered entering the war on the side of the Axis powers. British economic policy towards Franco's Spain after the fall of France was dominated by a number of important premises and conclusions. In the first instance, an analysis of the nature of the Franco regime left little doubt in the minds of many British observers that one was dealing with a system which was not much different to the one Adolf Hitler had established in Germany and to Benito Mussolini's Fascist regime. In fact, few disputed the fact that the Franco dictatorship had come into existence exactly because of the ample help the self-styled *Caudillo* had received from his fellow dictators during the Spanish Civil War.[3] Yet, the ideological factor alone did not necessarily pose a threat to Britain. What was, however, most dangerous was Franco's apparent willingness in June 1940 to repay Hitler's and Mussolini's services by joining the war on the side of the Axis.

After having proclaimed Spain's neutrality in September 1939, the Spanish dictator had adopted a wait-and-see policy during the period of

[2] Ben Pimlott (ed.), *The Second World War Diary of Hugh Dalton 1940–1945* (London, 1986), p. 113.

[3] For the most recent study of Germany's intervention in the Spanish Civil War, including a bibliography of previous works, see Robert H. Whealey, *Hitler and Spain, the Nazi role in the Spanish Civil War* (Lexington, 1989) For Italy's role John F. Coverdale's *Italian Intervention in the Spanish Civil War* (Princeton, 1975) remains useful; see also Paul Preston, *Franco, A Biography* (London, 1995).

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the 'phoney war'. Nazi Germany's defeat of France, and Italy's entry into the war, however, tempted Franco to offer Germany Spain's entry into the war on 19 June 1940, one week after the decision to declare non-belligerency.[4] In the summer months of 1940 when Germany's war machine appeared unstoppable and Britain's defeat or surrender seemed to be only a matter of time, a Spanish declaration of war on Britain was extremely likely. The prospect of the return of Gibraltar to Spain and a possible extension of Spain's 'empire' in North Africa was very tempting for Franco who was worried that he might miss his opportunity if he did not enter the war in time.

The scales of fortune had, however, not completely tipped against Britain. The British government (and indeed the Franco regime) was well aware of Spain's extreme economic difficulties. As a result of the Spanish Civil War, Spain had lost nearly 30 per cent of her maritime tonnage and half of her stock of railway locomotives. Her industrial output was down by 31 per cent compared to 1935; in agriculture output had fallen by 21 per cent.[5] Despite Franco's official comments to the contrary, and the repeated claims of Spanish 'success' at adopting autarchic measures,[6] the reality of Spain's economic situation in 1940 was more than desperate. If any improvement was to be achieved, foreign assistance was essential. Yet, Franco's hope for sustained German economic support was to be disappointed over and over again during the years following the end of the civil war in April 1939. Round after round of negotiations and regular requests for supplies of essential goods were to yield only pitiful results.[7]

However, the Franco regime had been sufficiently pragmatic not to rely on the possible success of economic negotiations with Germany. Indeed, ideological animosity towards the major Western capitalist powers, Britain, France, and the United States, had not stopped the regime from working towards improved economic relations with these countries in the immediate aftermath of the Spanish Civil War.[8] As far as Britain was

[4] For a very detailed analysis of the Spanish offer to enter the war and the reaction of the Nazi regime see Mathias Ruiz-Holst, *Neutralität oder Kriegsbeteiligung? Die deutsch-spanischen Verhandlungen im Jahre 1940* (Pfaffenweiler, 1986).

[5] Stanley Payne, *The Franco Regime 1939–1975* (Wisconsin, 1975), p. 246.

[6] For Franco's adoption of and comments on autarchic policies see *ibid* , pp. 248 ff ; for the failure of these measures during the Second World War see for example J. Catalán 'Autarquía y Desarrollo de la Industria de Fábrica durante la Segunda Guerra Mundial', in José Luis García Delgado (ed.), *El Primer Franquismo* (Madrid, March 1989), pp 35–88.

[7] See Christian Leitz, *Economic Relations between Nazi Germany and Franco's Spain, 1936–1945* (Oxford, 1996), particularly Chapter III

[8] In the case of France economic contacts had practically ceased during the second half of the civil war. To the chagrin of the German government economic negotiations between Franco's Spain and France were recommenced during the summer of 1939 leading to an economic agreement in early 1940. Stohrer to German Foreign Ministry, 22/1/1940, F[oreign and] C[ommonwealth] O[ffice Library] /A[uswärtiges] A[mt] 136/74022-3.

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concerned, Nazi Germany had not been successful in eliminating her as an economic power in Franco's Spain despite concerted efforts in that direction during the civil war.[9] While British government officials had occasionally expressed concern about Germany's increased economic influence in Spain, the cautious assessment that Britain's economic and financial strength might sustain her own influence in Spain proved to be correct.[10]

After Britain's recognition of the Franco regime in February 1939, shortly before the end of the civil war, the British government maintained its economic relationship with the 'new' Spain. Moreover, once the Second World War had begun in September 1939, Britain's position was strengthened by the dramatic reduction in Hispano-German trade which was confined to blockade runners, air transports, and limited economic exchanges via Italy.[11] The British government did not hesitate to exploit its naval strength by means of blockade and a major round of economic negotiations with the Franco regime commenced in Madrid in November 1939. The Spanish delegation put particular emphasis on the country's desperate oil and grain supply position which could not be improved unless British assistance was forthcoming. This would include a major injection of capital, the provision of adequate shipping facilities and the supply of sufficient amounts of fertilizers.[12] For its part, the British delegation was clearly intent on ensuring adequate supplies of vital Spanish raw materials for Britain, in particular pyrites since Spain was regarded as the 'only practicable source'.[13] Talks continued into 1940 and a successful conclusion was eventually reached in March with a trade and payments agreement between the two countries. In addition, Spain had managed to secure a loan of £2 million for expenditure in the sterling area. At the same time, the Franco regime had to agree that goods exported

[9] On Anglo-German economic competition in Spain during the civil war see Jill Edwards, *The British Government and the Spanish Civil War, 1936–1939* (London, 1979); Denis Smyth 'The Moor and the Money-lender Politics and Profits in Anglo-German Relations with Francoist Spain', in Marie-Luise Recker (ed), *Von der Konkurrenz zur Rivalität* (Stuttgart, 1986), pp 143–74; Christian Leitz, 'Hermann Göring and Nazi Germany's Economic Exploitation of Nationalist Spain, 1936–1939', *German History*, 14 (1996), 21–37; Charles P. Harvey, 'Politics and Pyrites during the Spanish Civil War', *Economic History Review*, 31 (1978), 89–104.

[10] Foreign Office Minute, 30 June 1939, PRO F[oreign] O[ffice Records] 371/24145/1084; Smyth 'The Moor', p. 161

[11] Leitz, *Economic Relations*, pp. 145–9.

[12] Report by Commercial Relations and Trade Dept, November 1940, BT11/1137; MEW report on Spanish oil situation, 12 January 1940, FO837/714, Mr Harris (BT) to FO, 30 December 1940, FO371/24496/77. According to Denis Smyth, *Diplomacy and Strategy of Survival, British policy and Franco's Spain, 1940–41* (Cambridge, 1986), p. 79, fertilizer production in Spain in 1940 reached only 33 6 per cent of its 1929 level.

[13] MEW to Makins, 4 January 1940, FO371/24496/246; Workman (Ministry of Supply) to Roberts (FO), 13 April 1944, FO371/39650/4810.

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to Spain through Allied controls would not be re-exported except with Allied approval.[14]

With France having already secured an economic agreement with Spain in January, Nazi Germany's economic influence appeared to have been severely reduced. Yet, within months of the signing of the agreements between the Allies and Spain the tide had turned dramatically. In June 1940 German troops arrived on the Spanish border where they remained for the next four years. The *Wehrmacht*'s military defeat of France had suddenly turned Spain into an adjunct of German-occupied Europe while Britain was left to fend for herself. This change of circumstances gave the Nazi regime the opportunity to renew its economic influence in Spain and to cause serious damage to Britain's economic links with the country.

Such economic repercussions were less than significant when compared to the probability of Spain's entry into the war on the side of the Axis. After Spain's declaration of non-belligerency on 12 June, the prospect of belligerency on the Axis side appeared a near-certainty, provided specified territorial (in North Africa), military, and economic demands were met. Although this article is not directly concerned with subsequent Hispano-German negotiations over the question of a Spanish entry into the war—culminating in the only meeting between Hitler and Franco at Hendaye in October 1940—British awareness of and reactions to such a threat are of crucial relevance. In his study on British policy and Franco's Spain Denis Smyth has captured the mood in the British government during the two crucial years of 1940 and 1941.[15] In the summer of 1940 some members of the cabinet, such as Hugh Dalton, were convinced that Franco would sooner or later succumb to Axis temptation. After Britain's disastrous experience with Italy, where a limited application of the blockade had not prevented Mussolini from joining the enemy camp, Dalton was not willing to repeat the experience with Franco's Spain. According to Dalton's understandable line of argument, to send essential supplies to Spain might well be a waste of effort, and indeed potentially damaging to Britain as these could eventually be used against her. The Minister of Economic Warfare was therefore committed to a stringent policy of blockade with a particular emphasis on the navicert system under which

> . . . a document, called a Navicert, which is in substance a commercial passport, is issued by the British Embassy or Legation in the exporting . . . country in respect of a particular consignment, after due investigation at the Embassy or Legation of the application made by the intending Shipper; or, in the case of certain commodities, after reference to the Ministry of Economic Warfare

[14] William N. Medlicott, *The Economic Blockade* (London, 1952), vol. I, p. 510.
[15] Smyth, *Diplomacy*, *passim*.

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> for the required authorisation before the Navicert is issued. Before giving such authorisation a guarantee of domestic consumption and non-enemy export may be required from the intended consignee . . . [the Navicert] has a validity of 2 months from the date of issue to the time of shipment.[16]

In marked contrast to Dalton, Hoare fought hard for the application of a more lenient approach towards Spain which, he believed, would not alienate the regime from Britain and would keep Spain out of the war.

As the main proponent of a self-styled 'school of the carrot', Hoare was able to influence the Cabinet towards a more 'constructive' policy on Spain.[17] In view of Lord Halifax's support for the ambassador's line, Churchill was inclined to agree to this approach, not wishing to overrule his own Foreign Secretary in this matter. The approach could be summed up to mean that Britain should respond positively to Spain's economic needs and supply, or help to supply her with urgently needed goods, particularly wheat and oil. Despite the introduction of controls which were intended to keep track of such supplies and avoid stockpiling, especially of petroleum, it was hoped that Franco could be convinced of the advantages of keeping Spain out of the war. In this context, the contrast between British willingness to grant economic help and Germany's obvious reluctance was to be emphasized.

In retrospect, it is difficult to prove whether this policy of controlled economic support was a major factor in keeping Spain out of the war. According to Ramón Serrano Suñer, the second most powerful man in Franco's regime during the crucial period 1940–1 when he served first as Minister of the Interior and then as Foreign Minister, it was Hitler's reluctance to fulfil the Spanish dictator's territorial dreams which outweighed any other reason for remaining non-belligerent.[18] None the less, economic considerations—on the one hand Germany's inability and unwillingness to supply Spain with essential goods, on the other Britain's limited ability and willingness—should not be discounted as contributory factors to Hitler's failure to bring Franco into the war in 1940.

British fears of a possible Spanish entry into the war remained undiminished for some time after 1940. In May 1941, the MEW pointed out that British economic warfare coupled 'with the complete exhaustion of the Spanish economy and the extraordinary inefficiency of the Spanish administration' had effectively prevented the risk of increasing Spain's low war potential. Yet, the same report also concluded that, despite all

[16] Memo on *Navicerts*, May 1940, [University of Cambridge Library], Templewood Papers XIII/2.

[17] For a detailed summary of the debate between 'hardliners' such as Dalton and the 'doves' led by Hoare, see Smyth, *Diplomacy*, pp 59 ff. See also Sir Samuel Hoare, *Ambassador on Special Mission* (London, 1946), p. 62.

[18] See Heleno Saña, *El Franquismo sin Mitos, Conversaciones con Serrano Suñer* (Barcelona, 1982), p. 13.

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factors to the contrary including the opposition of a large proportion of the population and the army to war, Spain remained 'virtually an axis country' and might still end up in the war on the side of Germany.[19] The dispatch of a Spanish 'volunteer' force, the Blue Division, to join the *Wehrmacht* on the Eastern Front in July 1941 served as a reminder to the British government of the possibility. Moreover, London was aware that, although not fully committed to the Axis in a military sense, the Franco regime nevertheless contributed to the German war effort in other ways. Smyth has emphasized how Franco's Spain assisted German intelligence gathering activities in Spain and Spanish Morocco as well as through Spanish embassies abroad.[20] In addition, the Franco regime regularly provided support or at least ignored German submarine refuelling activities in Spanish ports and coastal waters, an issue which was to play an important role in the negotiations over oil supplies discussed below.[21]

These elements of support notwithstanding, it was Spain's economic contribution to the German war effort which posed the greatest problem for the British authorities. After the restoration of direct rail links to Germany in the second half of 1940, exports of valuable Spanish raw materials were rapidly increased. This included among other goods iron ore and wolfram as well as woollen goods. The latter gained particular importance as the war against the Soviet Union dragged on into the winter months of 1941-2.[22] From a British point of view, it was essential to reduce the flow of Spanish goods to Germany while, at the same time, secure vital Spanish products for Britain. Immediately after the fall of France, the Foreign Office had made it clear that Germany was to be deprived of important supplies from Spain, particularly fats and feeding stuffs, steel hardening materials, textile fibres, and non-ferrous metals. The United Kingdom Commercial Corporation (UKCC) had then agreed to send a representative to Spain. In fact, the UKCC was to play a vital role in the British economic warfare campaign as it was 'to do . . . such business as cannot be carried out on a commercial basis through the normal trade channels.' This meant that by mid-1942 the corporation was responsible for about 80 per cent of the value of British purchases from Spain, and about 30 per cent of British supplies to Spain, including

[19] Report by MEW, 9 May 1941, PRO FO837/735.

[20] Denis Smyth, 'Screening "Torch": Allied Counter-Intelligence and the Spanish Threat to the Secrecy of the Allied Invasion of French North Africa in November, 1942', *Intelligence and National Security*, 4 (1989), *passim*

[21] According to Burdick sixteen submarines refuelled from German tankers in Spanish harbours between 29 January 1940 and 13 December 1941, Charles B. Burdick, *Germany's Military Strategy and Spain in World War II* (Syracuse, 1968), p 117.

[22] Hoare to FO, 2 December 1941, FO371/26955/13734. By May 1942 woollen textiles worth Pts 30 million had apparently been stockpiled by German buyers at the border to France, Hoare to MEW, 6 May 1942, BT11/1895.

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'copper sulphate, ferro-alloys, rubber, Egyptian cotton, sugar and also wheat if bought in sterling areas and Canada'.[23]

The British economic warfare campaign was further strengthened in 1940 by the appointment of David Eccles of the MEW as economic adviser to both British embassies in the Iberian Peninsula. His assignment was explicitly connected to the need to organize pre-emptive purchases.[24] According to William Medlicott several factors influenced

> the choice of commodities for purchase. The commodity must be indispensable to the enemy; it must be important to his war economy; there must be a genuine shortage; it must have a certain bulk . . .; it must be irreplaceable (there was no point in purchasing it if the enemy had an easily available substitute). The surplus of the commodity in the neutral country must, moreover, not be too large, nor must it be susceptible to easily increased production.[25]

While pre-emption turned into an ever-growing part of Britain's economic warfare campaign in Spain, other methods were also applied to stop Spanish goods from reaching Germany. Transport conditions within Spain were atrocious as a result of the civil war when, for example, 20,000 railway waggons and 1,000 engines had been destroyed.[26] The existence of only one railway bridge between German-occupied France and Spain, and the difference in railway gauge between Spain and France made rail transports from and to Franco's Spain a difficult and slow undertaking. German-Spanish trade was therefore partly dependent on the availability of shipping facilities. This offered the British authorities a chance to intrude upon the export of essential Spanish goods to Germany. While ships running from the northern coast of Spain to the south-west of France, and from Spanish ports on the eastern coast to the south of France and even to Italy remained a relatively safe option for Germany well into 1943—and was continued, albeit increasingly spasmodically, until August 1944—transports of pyrites from the south of Spain and of iron ore from Spanish Morocco were successfully disrupted by the Royal Navy making good use of their Gibraltar base. Although Spain continued to manage to export limited amounts of pyrites to Germany, exports of Spanish Moroccan iron ore to Germany, which during 1937 alone had amounted to over 800,000 metric tons, ceased almost completely during the Second World War.[27]

[23] MEW report on function of UKCC in Spain, 23 May 1942, FO371/31194/5327.

[24] MEW report, 2 August 1940, FO371/24502/8133; FO comment to letter by Hoare, 18 July 1940, FO371/24525/7812

[25] William N. Medlicott, *The Economic Blockade* (London, 1959), Vol. II, p. 58.

[26] Smyth, *Diplomacy*, p. 79.

[27] Communicated by Admiralty, 3 July 1941, FO371/26955/7478; Hoare to FO, 4 September 1941, FO 371/26955/10337; Sterling to Makins, 20 September 1941, FO371/26955/10579; Economic Advisory Board Report, 27 July 1944, FO935/147.

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Other economic warfare methods to interrupt trading links between Spain and Axis-occupied territory (including Axis-held areas of North Africa) were applied by the British government to reinforce the navicert scheme and naval interception. One procedure was to put pressure on the Spanish government to prevent the use of Spanish ships—some of which had been constructed on German orders—in the transport of goods destined for Axis ports. In February 1942 German and Spanish officials had signed a contract on the basis of which Spain would have to build twenty wooden sailing ships to German specifications. Although quick completion was promised, the construction process turned out to be hopelessly slow, partly because of a lack of skilled labour, but also because of British protests and the threat to refuse navicerts for wood from Spanish Guinea. Another approach was to target Spanish companies that were involved in trade with the Axis powers, and to threaten the application of the blacklist. Allied counter-measures were crowned with growing success during the course of 1943 when the fortunes of war clearly changed in favour of the Allies. According to British calculations, Spanish tonnage in Axis service was reduced from about 40,000 tons to less than 5,000 tons by the end of 1943 while Spanish companies demonstrated a greater willingness to co-operate with the Allies.[28]

Not surprisingly, the totality of these commitments towards an economic warfare campaign in Spain—loan agreements,[29] purchase of Spanish goods, pre-emption, involvement of the Royal Navy—had stretched British resources beyond breaking point long before 1943. During the course of 1941 the British government had to concede that it would be impossible to continue the economic assistance and warfare measures, particularly pre-emptive purchasing, without the financial support of the United States. This was most strikingly outlined by Halifax, now ambassador at Washington, in a memorandum of November 1941:

> Resources of His Majesty's Government are nearly exhausted and only active United States interest can enable us to maintain and develop the policy successfully pursued during past year... We shall also wish to encourage the U.S. Government to assist us in pre-emptive purchases in the Peninsula . . .[30]

In fact, even before the eventual entry of the United States into the war in December 1941, the US government had already become embroiled in discussions over the way Spain was to be treated economically.

[28] *Economic Progress*, Note by Ellis-Rees, early 1944, Templewood Papers XIII/23; Enemy Shipping Intelligence Note No. 142, 2 February 1944, PRO FO837/748, various letters on construction of wooden ships, August and September 1942, M[inisterio de] A[suntos] E[xteriores, Madrid] R2197/24. For more information on attempts to build up a German-controlled fleet of Spanish ships see Leitz, *Economic Relations*, pp. 172–5.

[29] A second financial agreement was signed on 2 December 1940, Smyth, *Diplomacy*, p. 131.

[30] Memorandum by Halifax, November 1941, BT11/1517.

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Petroleum exports from both the United States and Latin America to Spain constituted one particular issue of concern which will be discussed in more detail below. Suffice to say, that the Roosevelt administration was deeply suspicious about the nature and aims of the Franco regime; an impression which was not improved by the belief that Franco had tried to disrupt US commercial and investment interests in Spain in early 1940.[31]

No sooner had the United States entered the war, than the US Board of Economic Warfare (later Office of Economic Warfare) focused its work on the few remaining European neutrals.[32] Among these it came as no surprise to the British government that Franco's Spain received particular attention from the US authorities. Economically and strategically, the reasons for this particular interest did not differ much from British considerations. Although the United States had no need herself to import Spanish raw materials,[33] since she was able to satisfy the demands of her economy either domestically or through imports from Latin America, she accepted the importance of certain Spanish products for the Allied war effort.[34] Even more importantly, Roosevelt's administration concurred with British requests for a major pre-emptive drive to deny specific Spanish goods and raw materials to the German war economy which, in the crucial case of wolfram, found itself almost totally cut off from supplies in the Far East. On a strategic level, the US government was undoubtedly aware of British worries about the threat to Gibraltar, the dangerous consequences of a possible German move into Morocco, and a potential occupation of the Canary Islands and the Azores.[35]

On the political level, however, US government opinion differed from its British counterpart. According to Herbert Feis, most of the officials in the State Department shared the view of the majority of the American public which 'were averse to helping Franco and did not believe that either generosity or the resistance of the Spanish people would influence his

[31] Herbert Feis, *The Spanish Story* (Westport, 1987), p. 25.

[32] The 'functions, powers and duties' of the Board of Economic Warfare were transferred to the Office of Economic Warfare on 15 July 1943. On both organizations see *Cooperative Agreement between Board of Economic Warfare and the Department of State*, 8 January 1943, and unsigned and undated memo for Mr Crowley ('The Relationships between the State Department and the OEW—Legal Basis'), N[ational] A[rchives II] RG 169, Entry 101, Box 704.

[33] During the period 1940–2 the United States imported only small amounts of Spanish cork, olives, essential oils, brandy, and wine: *Brief Survey of Exportable Surpluses in Spain*, Board of Economic Warfare, 3 July 1942, FO837/754.

[34] See for example Secretary of State to US ambassador in Spain, 12 January 1942, F[oreign] R[elations of the] U[nited] S[tates], 1942, (Washington, 1961), iii. 254.

[35] See Warren F Kimball (ed.), *Churchill & Roosevelt* (Princeton, 1984), vol. I, pp. 86–7 (editor's comment and doc. C-41x, Churchill to Roosevelt, 23 November 1940) and pp. 172 ff. (doc. C-81x, Churchill to Roosevelt, 24 April 1941). For British contingency planning in the event of a German occupation of the Azores see Glyn Stone, *The Oldest Ally: Britain and the Portuguese Connection, 1936–1941* (Woodbridge, 1994), Chapter 8.

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course'.[36] The level of American mistrust towards the Franco regime was clearly reflected in US supply policies, most notably with regard to oil. Regularly throughout the Second World War, the US government voiced its suspicions about possible re-exports of oil to Germany, about the supply of German submarines with American oil, and most worryingly during 1940–2, about Spanish stockpiling in preparation for an entry into the war on the side of the Axis.[37]

In effect, the wartime trade policy of the US government was largely guided by a set of terms which the State Department communicated to the Spanish government via the Spanish ambassador in Washington at the end of November 1941. According to the terms:

- The American government offered to supply Spain with enough, and just enough, oil 'to meet Spain's requirements for transportation and other essentials'.
- This oil was not to be used 'in any manner useful to Italy or Germany, directly or indirectly'.
- Its distribution and use within Spain and the Spanish colonies was to be subject to our supervision—to prevent diversion to the Axis. American agents were to be given free access to all Spanish facilities for receiving, shipping, storing, and refining oil.
- The American government also offered to permit Spain to obtain such other American products as could be freely bought in the American market.
- In regards to goods in short supply, we promised to see what we could do to provide such amounts as were necessary for a low wartime level of economic activity. These were not to be used in ways that would benefit Germany or Italy or countries under their rule.
- In return, Spain was asked to obligate itself to assist us to secure various Spanish products—wolfram, cork, mercury, zinc, lead, fluorspar, olive oil, and various roots and drugs.
- The Spanish government was to try to transport these products in Spanish ships.[38]

From this brief summary of the attitude of the US government at the time of the entry of the United States into the war, and indeed for the remainder of the war, it is not surprising that the British government and particularly its embassy in Madrid, committed as they were to using the 'economic weapon' moderately, were to find it difficult to co-ordinate policies with their US counterparts. According to Halifax, in

[36] Feis, *Spanish Story*, pp. 130–1. See also Medlicott, *Economic Blockade*, vol. II, p. 292.
[37] See Aide Mémoire, Dept of State to Spanish embassy, 30 October 1942, FRUS, iii. 324–5; Feis, *Spanish Story*, p. 153; Medlicott, *Economic Blockade*, vol. 1, p. 292.
[38] Summarized by Feis, *Spanish Story*, p. 149.

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late 1941 cooperation between the British and the US government on Spain was already expected to be problematic as 'there was still a good deal of prejudice in other branches of the United States Administration'.[39]

During the first half of 1942 discussions centred around a joint supply/purchase programme proposed by the US government in February.[40] It was hoped that such a programme would fulfil Allied requirements of Spanish goods, deny Nazi Germany vital Spanish products, and allow Spain restricted supplies of goods from the Anglo-US sphere of influence. As far as the first two elements of the programme were concerned, the significance of certain Spanish products was reflected by major Anglo-US planning discussions in December 1941. These resulted in the tentative supply and pre-emption planning figures shown in Table 1.[41]

Table 1
Spanish goods: supply and pre-emption

Supply purchases

Product	In tons	In £ sterling
Category I (of primary importance)		
Zinc	60,000	1,000,000
Lead	40,000	1,200,000
Iron Ore	800,000	800,000
Potash	60,000	540,000
Cork	35,000	350,000
Category II (of secondary importance)		
Pyrites	500,000	450,000
Pig Iron	50,000	350,000
Oranges	100,000	2,625,000
Pre-emptive purchases		
Wolfram*	600	3,000,000
Skins	2,400	300,000
Olive Oil	50,000	6,800,000
Wool	20,000	8,000,000

* also required on supply grounds
Source: PRO BT11/1859.

[39] Halifax to FO, 12 November 1941, BT11/1517.
[40] Report of the Pre-emption Committee, 13 February 1945, FO837/754.
[41] Memo of meeting at MEW, 22 December 1941, BT11/1859.

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Discussions about the third area, Spanish imports, were dominated by the question of oil, rubber, and cotton supplies. Yet, owing to the slow progress of discussions between British and US officials on the one hand and the Allies and the Franco regime on the other, the results of the supply/purchase programme for the first half of 1942 had to be regarded as unsatisfactory, with for instance purchases of only 198 tons of wolfram, 250 tons of skins, and Pts 30 million worth of woollen textiles.[42] Discussions on a second programme for the second half of 1942 therefore commenced in May and an agreement between London and Washington was finally reached at the end of August.

Table 2
Supply purchase programme July–December 1942, selected products

Spanish Exports to Allies		
Product	Target figure	Value (in million $)
Mercury	35,000 flasks	8.7
Iron Ore	390,000 tons	1.936
Potash	20,000 tons	0.564
Cork	8,900 tons	1.67
Pyrites	80,000 tons	0.8
Wolfram	500 tons	10
Skins and Hides	2,800 tons	7
Woollen Goods	no quantity given	10
Allied Exports to Spain		
Product	Target figure	Value (in million $)
Cotton	38,000 tons	11.382
Coal	220,000 tons	5.32
Petroleum	300,000 tons	?
Rubber	1,000 tons	1.332

Although the selection in Table 2 indicates that a number of different products and goods were incorporated in Anglo-US considerations *vis-à-vis* Spain, two commodities were to dominate the economic negotiations of the Allies with Spain (and negotiations between the Allies):

[42] Medlicott, *Economic Blockade*, Vol II, p. 298.

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wolfram and oil. This is clearly demonstrated by the considerable quantity of Ministry of Economic Warfare documents on these two products.

Wolfram

Soon after the German defeat of France the British government detected growing signs of Germany's concern about her supplies of wolfram, a raw material vital to her arms industry, particularly in the production of armour piercing projectiles.[43] In the late 1930s Germany had imported about a quarter of world wolfram production, more than any other country.[44] Only limited quantities of Spanish wolfram were exported to Germany before 1940.[45] However, the Nazi leadership had tried to ensure access to Spanish and Portuguese mines, the two major European sources of wolfram, should the import of wolfram from the Far East—the main source before 1940—become impossible. As far as Britain was concerned, interest in Spanish wolfram was non-existent in 1939. This attitude slowly changed during the second half of 1940 with the recognition of a rapid increase in Germany's preoccupation with Iberian wolfram. In October the MEW came to the conclusion that wolfram needed to become a pre-emption target.[46] Events moved at an increasing speed thereafter. After an initial preoccupation with Portuguese wolfram, the MEW informed the Treasury in July 1941 that 'the wolfram bubble has now spread from Portugal to Spain' as a result of which the MEW received 'written authority for operations in Spain'.[47] 'Operations' included both supply and pre-emptive purchasing. These British activities received an additional boost in November when the US government agreed 'to co-operate in a policy of controlling mining supplies', including wolfram. Thus, the policy of 'depriving the Germans of every possible ton of wolfram' had finally been established by the end of 1941. From an organizational point of view, the MEW was in charge of co-ordinating and planning the wolfram campaign while the UKCC was responsible for the day-to-day running of the campaign in Spain.[48]

[43] For more detailed information on the multiplicity of uses of wolfram see Christian Leitz, 'Nazi Germany's Struggle for Spanish Wolfram during the Second World War', *European History Quarterly*, 25 (1995), 71–92

[44] Jörg-Johannes Jäger, *Die wirtschaftliche Abhängigkeit des Dritten Reiches vom Ausland* (Berlin, 1968), p 271.

[45] 150 metric tons out of total imports of 11,400 in 1937, falling to 119 out of 14,200 in 1938, and further down to 74 out of about 8,000 in 1939 (compiled from various sources in the *Bundesarchiv Koblenz*, the *Militärarchiv Freiburg*, and the *Bundesarchiv Außenstellen Potsdam*).

[46] Comment by Davidson (MEW) to a letter from the UKCC (London), 22 October 1940, FO837/721.

[47] Davidson to John Penton (Treasury), 3 July 1941, FO837/721; Davidson to Dolphin (UKCC), 25 September 1941, FO837/721.

[48] Dolphin to Nicholls (MEW), 4 November 1941, FO837/743, 2nd meeting of Pre-emption Committee, 6 November 1941, *ibid.*; see also Weddell to Hull, 15 January 1942, FRUS, iii. 258.

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British purchases of Spanish wolfram remained unsurprisingly low in 1941 when they amounted to just 74 tons—in contrast to German purchases of 800 metric tons. This was due not only to the belated entry of British buyers into the Spanish wolfram market, but also because of a pronounced lack of funds and an inadequate organizational network in Spain.[49] The Nazi regime, on the other hand, was able to rely on its established organizational structure ROWAK/SOFINDUS (*Rohstoff-Waren-Kompensation Handelsgesellschaft/Sociedad Financiera e Industrial*) to organize wolfram mining and purchasing. In fact, only after Franco's more stringent mining law of 21 September 1942 did the Allies arrange for the foundation of a company equivalent to SOFINDUS. SAFI (*Sociedad Financiera e Industrial*), officially owned and run by Spaniards, was modelled on SOFINDUS and a new German cover company *Somar*, and engaged largely in the purchase of wolfram mining rights.[50] In fact, the Allies never managed to match Germany's mining output in Spain. When giving highest priority to the acquisition of Spanish wolfram from mid-1940 onwards the Nazis could rely on a small, but regular contribution from German-owned wolfram mines in Spain. On the Allied side there was no doubt that these mines had to be targeted. Plans were discussed on how to damage the production of Germany's wolfram mines either by attempting to have the mines repossessed by their previous Spanish owner (and therefore making their production available to the free market again) or by buying mines near German mines and then attracting the Spanish miners away through offering higher wages.[51] In fact, one German report even indicates that British agents organized wolfram ore thefts against German mines.[52]

These proposals and clandestine activities, most of which appeared to have had no impact upon the German mines, indicate the intention of the British government to consider every aspect of Germany's wolfram supply line as a target. At the same time, the most effective method after 1941 employed by the British authorities was to deny supplies to Germany by pre-empting purchases of Spanish wolfram. As Britain was able to receive sufficient quantities of American molybdenum (a substitute for wolfram) from 1941 onwards for their own industrial needs, pre-emption became the overriding aim.[53] Financial constraints were temporarily

[49] Table *Exports of Wolfram (Spain)* by MEW, 18 May 1944, FO837/786. For German figures see Leitz, 'Nazi Germany's Struggle', Table 3.

[50] Yencken to MEW, 28 September 1942, PRO FO837/766, Hiros (Berlin) to *Fachabteilung Ferrolegierungen*, 25 June 1943, B[undes]A[rchiv] R7/735.

[51] Memo by Walser (USCC), 27 August 1942, FO371/31196/8074.

[52] Memo by Kolbe, 15 June 1944, BA R7/962.

[53] Dingle Foot to *The Times*, 13 August 1973, Churchill College Archives Centre, Dingle Foot Papers 2/1.

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overcome at the beginning of 1942 when the new Anglo-American supply plan was put into action. This had an immediate and positive impact on Allied purchasing of wolfram. While German wolfram acquisitions in 1942 remained virtually the same as in 1941 (increasing by only 5 metric tons to 805), Allied purchases increased tenfold to 771 tons.[54] In the second half of 1942 alone target figures for wolfram purchasing had been exceeded by 43 per cent.[55]

Yet, the Allies had no reason to be satisfied with the improved position they had achieved because Germany had still managed to buy up and import sufficient amounts of wolfram. In fact, by the beginning of 1943, a British observer concluded that the 'Germans were making their maximum effort; and we were making but for a poor response.' Strenuous efforts were therefore put in place to improve financial resources at the beginning of 1943. Owing to the prioritization of wolfram 'at the expense of all other pre-emptive purchases' a joint Anglo-American fund was quickly built up which, by March 1943, amounted to approximately Pts 220 million. According to Hugh Ellis-Rees of the British embassy in Madrid, this finally enabled the Allies 'to make a big drive'.[56] And so they did: in April 1943 the Allies bought nearly twice as much wolfram as they had during the previous month (Table 3).

Table 3
Allied wolfram purchases in 1943 (in tons)

January	77	July	520
February	108	August	246
March	144	September	277
April	266	October	277
May	264	November	348
June	354	December	154

Total for 1943: 3,035

Source: PRO FO371/39648/6500.

By early summer 1943 it appeared that the Allied campaign had dealt a blow to Germany's wolfram purchasing. While the Allies intervened heavily in the Spanish wolfram market, Germany's funds were eroding quickly in the spring of 1943. From a high point in February 1943, when

[54] FO837/721; FO837/758; FO837/786
[55] Conrad (MEW) to Roberts, 4 February 1943, FO371/34793/1458.
[56] Memo by Ellis-Rees on *Economic Relations with Spain*, 31 May 1943, FO371/34798/6500; Annual report by Ellis-Rees on 1943, 17 March 1944, FO371/39648/6500.

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German buyers had managed to acquire 279 metric tons, acquisitions fell to just over 97 in June, while no wolfram at all was purchased during the following three months. According to the MEW the proportion of wolfram purchases had by then moved 'from 3:2 in favour of Germany to 6.7:4 in favour of ourselves + the U.S.'[57] Yet, at the same time British buyers were beginning to experience financial problems similar to those of Germany. This development can be explained by the steep increase of Spanish wolfram prices which resulted from the intensification of the economic warfare campaign fought by both sides. While Britain had paid between Pts 60 and 80 per kg of wolfram towards the end of 1941, prices had risen to Pts 172.5 per kg by the end of 1942, and eventually to Pts 285 in May of 1943. Even the fact that the British forced Spanish sellers to accept a drop in prices during Germany's temporary absence from the wolfram market in late summer 1943 provided only momentary financial relief. In fact, for the whole of 1943 British buyers, still largely responsible for the wolfram pre-emption of the Allies, spent at least Pts 485 million on purchasing wolfram plus another Pts 276 million on the production tax the Spanish government charged for wolfram. This considerable expenditure on the purchase of a single raw material eventually led to the total exhaustion of all Allied resources in free Pesetas. During the second half of 1943 the Allies were therefore forced to resort to occasional payments in gold (Table 4).[58]

Table 4
Value of wolfram purchased by Allies, 1942–4 (in £ 000)

1942	1,906
1943	6,183
1944	7,286

Source: FO371/39659/14984.

The all too apparent rivalry between the Allies and Nazi Germany over wolfram convinced the Franco regime that it should utilize the 'wolfram

[57] *IG Farben* to *Oberberghauptmann* Gabel, 18 May 1943, BA R7/734, copy of a report by German embassy, Madrid, to German Foreign Ministry, 20 September 1943, BA R7/735, comment by Hallıday to a telegram from Hoare dated 3 July 1943, FO371/34800/7629.

[58] Annexe to annual report of Ellis-Rees, 17 March 1944, FO371/39648/3455. *In toto* £4,069,000 worth of gold was transferred to Spain until 30 September 1944, minutes of 54th meeting of Anglo-American Economic Committee, 17 August 1943, FO371/34803/10160; Bowker to FO, 19 October 1944, FO371/39659/14984, *Economic Progress*, Note by Ellis-Rees, early 1944, Templewood Papers XIII/23; Fish to Hull, 22 June 1943, FRUS 1943, ii. 632–3.

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rush' to its financial advantage. By January 1943 both British and German buyers were faced with three surcharges on the basic price of wolfram: an export tax of Pts 50 per kg, a newly introduced production tax of Pts 100 per kg and the charge for *guias* (permits required to transport wolfram within Spain) which amounted to Pts 35 per kg. Although British officials managed to force the Franco administration to reduce the total sum for export tax and production tax to Pts 100 per kg in April 1943, government charges still caused an enormous financial drain to wolfram buyers. In the case of the Allies alone over Pts 420 million were spent on these surcharges during the whole wolfram campaign.[59]

It is therefore not surprising that, during the course of 1943, the Allies displayed an increasingly critical attitude towards the Francoist stance on wolfram. Ironically, just when the Franco regime had revised Spain's official position back to neutrality—as declared on 3 October 1943—the British government noted, to its annoyance, that Franco's economic policy had taken a turn in favour of Germany. In early December it was reported that the Spanish government had allowed Axis nationals on board the air service running from Spain to Spanish Morocco. This constituted a violation of an agreement with the Allies which had linked the supply of aviation spirit to the denial of this air service to Axis nationals. It prompted a general comment by the Foreign Office on the attitude of the regime: 'This development is a further sign that the Spanish government have for the time being abandoned their policy of strict neutrality which for a few months in the summer they seemed genuinely to be adopting.'[60]

Franco's apparent exploitation of the wolfram situation to the benefit of Spain, but more annoyingly to the advantage of Germany indicated to the Allies that he was not willing to assist them in their economic warfare campaign. Allied views on Franco's unco-operative stance received their ultimate confirmation towards the end of 1943 when the Spanish government granted Nazi Germany a RM 100 million credit on Franco Spain's outstanding civil war debt. More than half of the amount was allocated to purchases of wolfram and the payment of wolfram taxes. At a time when German buyers had almost totally vanished from the Spanish wolfram market, they were suddenly given an enormous financial boost.

What was the Allied reaction to such a blatant act of support for the German war economy? In the first instance, it brought the difference in British and American views on how to deal with the Franco regime back to the fore. Until late 1943, and despite regular interventions on the matter of oil, the US government had largely left decisions on pre-emption to

[59] Report by UKCC, February 1943, FO837/775, Barth (USCC) to unknown Spanish official, 22 August 1944, Archive of Bank of Spain DE-IEME.Secretaria Caja 162.
[60] Comment by Williams (FO), 5 December 1943, FO371/34808/14310

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the British government. As a consequence, the policy of cautious economic conciliation had been continued. This meant that, subject to certain constraints and conditions, attempts were made to fulfil Spain's economic requirements. The main constraints were Britain's own needs which naturally took priority and the lack of shipping to transport goods to Spain. The conditions included the prohibition of the re-export of Allied goods to the enemy and the denial of any excessive stockpiling. Constraints because of British needs were shown particularly over the connected issue of rubber supplies.

In reaction to growing British demands for wolfram, Spain had demanded supplies of rubber to keep her frail transport system going. Significantly, as early as January 1942 Demetrio Carceller, Franco's Minister for Industry and Commerce, offered the British government immediate 'facilities' to buy and export wolfram and other goods if sufficient amounts of rubber were made available to Spain. On 7 March 1942 Carceller went as far as offering licences for all available wolfram and even possibly to deprive German buyers of the wolfram they had acquired. Two weeks later, this offer was followed up by Hoare who proposed to Carceller four quarterly instalments of 500 tons of rubber in exchange for at least 600 tons of wolfram. In fact, the MEW insisted in April that the British government was 'definitely not prepared to *supply* rubber and hides unless Wolfram and Skins are actually made available to us'. Discussions continued over the following months. By the end of 1942 the matter was not yet resolved satisfactorily and discussions over rubber supplies continued into 1943. In February 1943 the British Ministry of Supply finally agreed on an allocation of 1,000 tons for the remainder of the year over and above the 359 tons which were still outstanding from 1942. It appears that rubber supplies subsequently ceased to be a controversial issue, despite the continued altercation over wolfram.[61] In fact, during the course of 1943 Allied pressure over supplies to Spain shifted almost completely to the question of oil.

Oil

Just as Spanish wolfram had become one side of a coin, Allied supplies of oil made up the other. Throughout the war the issue of petroleum supplies persisted as a constant topic of discussions between Spanish and Allied officials. During the period between the fall of France and the entry

[61] Hoare to FO, 24 January 1942, FO371/31191/967; MEW to British embassy (Madrid), 14 April 1942, FO371/31193/3831; Hoare to MEW, April 4 November 1942, FO837/750; Meeting of 'Working Party' on supplies to and from European neutrals, 27 April 1943, FO837/778, Medlicott, *Economic Blockade*, vol. II, pp. 298, 305, and 550.

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of the USA into the war petroleum imports into Spain had been regulated by the Anglo-Spanish oil agreement of 1940. This had been drawn up by Mark Turner, head of the Oil Department of the MEW in consultation with the British embassy in Madrid and without any direct involvement of the United States administration. Yet, even then the US government wielded a major influence over the quantity and regularity of oil supplies to Spain, as sources were located either in the United States or in American-owned refineries in Latin America. US control over the quantities of oil supplies to Spain was made explicit on 1 August 1941 when Spain became subject to United States export licensing on petroleum products. Despite the willingness of the British government to assist Spain in finding sufficient supplies of oil, little could be achieved without the consent of the American government. In supply terms, this meant that while, for 1941, the British government had promised 632,800 metric tons of oil, only 509,000 arrived in Spain.[62]

Once the United States had entered the war, the situation changed even more radically. According to a Foreign Office report 'America, now a belligerent, could no longer use her tankers to transport oil to neutral countries; she now shared the U.K. responsibility in blockade matters and the need to conserve supplies became an important factor in the situation. By agreement with H.M.G. . . . a U.S. oil observer was sent to the Peninsula on behalf of U.S.G. and H.M.G.' The 'oil observer' Walter Smith built up 'a considerable staff of subordinate oil attachés' in Spain as well as Spanish Morocco and Tenerife. The down grading of Britain's influence over oil matters was further demonstrated by the fact that the Oil Department of the MEW ceased to exist and that no British petroleum representative was sent to assist the American oil observer.[63]

Not surprisingly, Spain's oil supply situation was quickly affected by the enhanced role of the United States in petroleum matters. Owing to the withdrawal of US tankers from supplying the Iberian Peninsula, Spanish imports of petroleum products were dependent on the country's own limited fleet. Even the supply function of the Spanish tanker fleet, however, was often restricted over the following years by American delays in transferring oil to the ships or in releasing the ships from US ports—even in cases where the tankers had clearly been given British consent in the form of navicerts.

American delays due to administrative difficulties as well as for reasons of suspicion and hostility towards the Franco regime had already led to the shortfall in supplies of oil to Spain during 1941. Still fearful that a limitation of oil supplies might force the Franco regime into closer

[62] M. Sansigre Vidal, 'El Petróleo en las Relaciones España-USA (1940–41)', *Historia 16*, Year IX, No. 98 (?), 13.

[63] Petroleum Division Report *Peninsula Oil*, 9 March 1944, FO371/39648/3434.

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co-operation with Germany, the British authorities found it necessary to work on their US counterparts to ease the pressure on Spain and agree on a more co-operative and long-term supply policy.[64] American suspicions had even led to a suspension of oil supplies in late November 1941. As a consequence it took until 20 February 1942 before the US government finally released three Spanish oil tankers to take their long-awaited cargo to Spain. Although this move coincided with an expression of willingness to participate in a joint purchasing programme for Spain, the US government remained extremely cautious in its approach.[65] At the same time in early 1942, the importance attached to the Iberian Peninsula was emphasized by two organizational changes. The setting up of both the interdepartmental Iberian Peninsula Operating Committee (IPOC) under the chairmanship of Herbert Feis, and the United States Commercial Company (USCC) as the American equivalent of the British UKCC, was intended to reduce organizational problems within the US government and increase the efficiency of American economic warfare measures.

While the British government was encouraged by this intensification of Washington's commitment to economic warfare including the 'offer to share equally costs of pre-emption in the Peninsula'[66]—it was still concerned about the stance of the United States on the question of oil supplies to Spain. Only an interim 90-day programme was drawn up in February 1942, but even this short-term supply plan was affected by concern over the suspected refuelling of German submarines and suspicion over Spain's actual consumption and possible stockpiling activities.[67] In the end, nearly all of the promised 50,400 tons of petroleum and petroleum derivatives reached Spain in the spring of 1942, though the fundamental problems remained unresolved. In fact, during the following months the position of the US government was strengthened when the decision-making process on oil virtually shifted from London to Washington.

By the end of July 1942, however, the US government had suddenly become more accommodating. Owing to the decision on Operation Torch for the invasion of North Africa, which had been taken on 25 July, the US government had temporarily accepted the underlying principle of British policy towards Spain: an alienation of Spain had to be avoided. It was anticipated that the attitude of Franco's regime would be crucial in the outcome of the planned Allied landings in North West Africa.[68] For a short time therefore Franco enjoyed a more favourable US attitude

[64] Medlicott, *Economic Blockade*, vol II, pp. 287–8.
[65] *ibid.*, pp. 295–6.
[66] *ibid.*, p. 296
[67] *ibid.*, pp. 300–1.
[68] See Smyth 'Screening "Torch" ', *passim*.

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with regard to supplies which, owing to his regime's inactivity during the North African landings, continued into early 1943. Even over the question of oil, Spain was given a brief respite with a more regular inflow of oil in late 1942 which allowed Franco's regime to raise the oil rations for private cars, trucks, buses, and factories. In December the US government then increased the official annual figure for 1943 of oil shipments to Spain to 541,000 tons, an increase of 49,000 tons over 1942.[69]

The 'harmony' was not to last for long. As Feis so succinctly put it when he describing how the US government pondered on whether it should take a favourable or a firm stance: 'That was to be the most argued question for the rest of the war. For a time the American government tried the first then resorted to the second.'[70] This reversal of attitude—which was to lead to major, often heated discussions between the British and the US governments—was completed within the same year and became particularly evident over the question of oil. While Spain had experienced an improvement in oil supplies in early 1943, it was threatened with an oil embargo in late 1943, a threat which was made real in January 1944. It was during this period that the question of wolfram supplies to Germany—central target of the Allied economic warfare campaign—merged directly with the question of oil supplies from the Americas.

It has been indicated that Franco's decision to enable Nazi Germany to revitalize her wolfram campaign in late 1943 led to a marked controversy between US and British officials about how to deal with the Spanish regime. This was demonstrated, albeit in an exaggerated way, by William Cavendish-Bentinck of the Foreign Office on 16 October 1943: 'About once every quarter the U.S. War Department start a brief campaign in favour of toughness to Spain. I have always suspected that a number of American press correspondents who were with the Republicans during the Spanish Civil War are now in the U.S. War Department dressed up as majors and colonels.'[71] In general terms, however, in late 1943 the Foreign Office was not disinclined to put more pressure on Franco to change his policy in favour of Britain and the United States. On 23 December the British Foreign Secretary Anthony Eden instructed Lord Halifax to inform the State Department that Britain 'also wanted to shake General Franco's complacency'.[72] Yet, the problem was the insistence of the United States to go beyond British recommendations and demand a total embargo of the export of wolfram to Germany.[73]

[69] Feis, *Spanish Story*, p. 197.
[70] Feis, *Spanish Story*, p 192
[71] Comment by Cavendish-Bentinck, 16 October 1943, FO371/34805/11527.
[72] Llewellyn Woodward, *British Foreign Policy in the Second World War* (London, 1975), Vol. IV, p. 18.
[73] See various documents in FRUS 1943 (Washington, 1964), ii. 644–68, but particularly Stettinius to Hayes, 6 November 1943, FRUS 1943, ii. 648–9

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In fact, an unfortunate decision by the Spanish regime in October had further contributed to a rapid deterioration of its position *vis-à-vis* the US administration. Spain's apparent *de facto* recognition of José Laurel's regime, which had been installed by the Japanese on the Philippines in summer, again demonstrated Franco's unreliability to the US authorities.[74]

American anger about the overall attitude of the Franco regime led to a more drastic approach on the joint question of Spanish wolfram supplies to Germany and Allied oil supplies to Spain. On 18 November 1943, without informing the British government, Carlton Hayes, the American ambassador, delivered an official memorandum to the Spanish Ministry for Foreign Affairs in which the American government demanded the unconditional cessation of wolfram exports to Germany.[75] The fact that the Franco regime did not reply to the memorandum gave further encouragement to the Roosevelt administration to apply a gradual reduction of oil supplies to Spain. In fact, Franco's dilatory attitude over the wolfram question led the US government to go further than simply reducing oil supplies. On 28 January 1944 a total oil embargo was imposed on Spain.

This radical strategy by the Roosevelt administration to force Franco to terminate wolfram supplies to Germany fitted uneasily with the perception of some British officials. Considering Hoare's consistently moderate approach it is not surprising that he reacted with hostility to the US attitude. He protested that 'the Americans have lost all sense of proportion over wolfram, and if they are not checked, the situation here [in Spain], which has recently been more hopeful, will be worse than ever'. However, the ambassador did not receive the expected support from his Foreign Secretary who conceded that the Americans might 'be right' while Churchill was also not willing to support drastic action. In fact, on 12 February 1944 Churchill argued that the United States were not unreasonable in saying that if the Spaniards wanted American oil they must stop sending wolfram to Germany. He then proceeded to assure Roosevelt of his support.[76] Both Churchill and Eden were, however, prepared to help steer matters into calmer waters. Constant negotiations with both the Spaniards and the US government continued throughout February and March to achieve a compromise solution. By April 1944

[74] For detailed information on the so-called Laurel incident see James W. Cortada, 'Spain and the Second World War', *Journal of Contemporary History*, 5 (1970), 66 ff. See also FRUS 1943, ii. 631, and 722–38, and Cordell Hull, *The Memoirs of Cordell Hull* (London, 1948), Vol. II, pp. 1328–9.

[75] Carlos Collado Seidel, ' De Hendaya a San Francisco? Londres y Washington contra Franco y la Falange (1942–1945)', *Espacio, Tiempo y Forma*, Series V, 7 (1994), 57.

[76] Hoare to FO, 10 February 1944, (and comment by Eden), FO371/39646/1920; Woodward, *British Foreign Policy*, Vol. IV, p. 21.

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the British government had finally managed to convince its American ally to take a less drastic approach towards Spain. British persistence was finally rewarded on 2 May when an agreement was reached between the Allies and Spain. The emphasis in this so-called Wolfram Agreement was very much on the strict limitation of wolfram exports to Germany to 40 tons up to 30 June and 240 tons for the subsequent six months and the prevention of smuggling.[77] While the US government was disappointed with the agreement, its British ally showed satisfaction, but demanded proper application of the agreement by the Spanish authorities. In fact, the supervision of the implementation of the agreement became the main occupation of British and US officials in Spain until the successful Allied invasion of France. British officials made a concerted effort to undermine German smuggling activities. According to Hugh Ellis-Rees the British embassy had expected Germany to make an all-out effort to circumvent the agreement. During the period to 21 August 1944, British economic warfare activities therefore concentrated almost entirely on the prevention of German smuggling:

> We [the Allies] had already prepared for this and had a reasonably good organisation in the area of the Franco-Spanish frontier. We persuaded the Spanish Government to agree that we should have reporting officers, acting for the British and American Governments in cases of emergency, appointed in the main sea ports along the northern coast . . . [who] were mostly British and American Consular officers.'[78]

Yet, despite strenuous efforts to undermine German smuggling, including regular protests to the Spanish government about major German wolfram stocks near the border to France, the Germans managed to smuggle a total of 443 metric tons out of Spain during April, May, and June.[79] It was only in July that Allied pressure led to a substantial reduction in smuggling and the removal from Spain's northern border to Madrid of 1,031 tons of wolfram from German stocks. The interruption of rail links between Germany and Spain in August, which reduced trade between the two countries to a trickle, finally led to a gradual cessation of Allied economic warfare activities in Spain.

The remaining, though much reduced, economic contacts between Germany and Spain, and particularly the continued activities of SOFINDUS

[77] For more details on the negotiations and the agreement between the Allies and Spain see Medlicott, *Economic Warfare*, Vol. II, pp. 567–76, and Hull, *Memoirs*, Vol. II, pp. 1329–33. The agreement also covered other major issues, such as the expulsion of German agents from Spain and Spanish-controlled territory, and the continued presence of Spanish units on the eastern front.

[78] *Anglo/Spanish Economic Relations, 1944*, Report by Ellis-Rees, 3 October 1944, Templewood Papers XIII/7.

[79] Leitz, 'Nazi Germany', 87.

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forced the British authorities to persist, albeit to a much more limited extent, with economic warfare operations until the end of the war. German planes continued to carry goods to and from Spain until April 1945. In many cases, such transports consisted of small quantities of material useful to the German war effort, including mica, fluorspar, vitamin concentrate, and in one instance even penicillin which had previously been imported into Spain from the United States. SOFINDUS played a vital role in the organization of such transports. Ample amounts of cash held by SOFINDUS and the German embassy were applied to keep existing extensive contacts to Spanish officials intact.[80] Such contacts proved to be particularly useful for one SOFINDUS activity which attracted the particular attention, and anger, of the British authorities: the supply from Spain of Germany's fortresses on the French Atlantic coast.[81]

Overall, however, economic warfare activities were subsumed in the general task of eradicating all German influence in Spain. Increasingly during the first half of 1945, British officials became far more occupied with preventing Germans from taking refuge in Spain and with pressing for the extradition of those who had been active there during the war.[82] In economic terms, the emphasis shifted away from combatting German activities to the pressing question of whether to commence concerted efforts to strengthen Britain's trade relations with Spain or whether to apply economic sanctions against the Franco regime. This question, part of the much wider problem of what to do with the last 'bastion' of fascism in Europe, was to occupy not only Churchill's coalition government, but even more so Clement Attlee's incoming Labour administration.[83]

In conclusion, British economic warfare in Spain during the Second World War was dominated by three successive and overlapping objectives. Initially, the fear of a Spanish entry into the war overshadowed the economic warfare agenda. The question British officials had to ask themselves was whether any economic help given to Spain might bolster the ability of the Franco regime to enter the war on the Axis side. On the other hand, if economic supplies of such vital goods as wheat and oil were not forthcoming in sufficient quantities, the Franco regime might enter the war out of pure desperation.

[80] On the extensive contacts between German officials and agents and Spanish official circles see Carlos Collado Seidel, 'Zufluchtsstätte für Nationalsozialisten? Deutsche Agenten in Spanien 1944–1947', *Vierteljahreshefte für Zeitgeschichte*, 43 (1995), 143–5.

[81] Leitz, *Economic Relations*, pp. 212–16.

[82] *ibid.*, p. 216.

[83] British policy towards Franco Spain during the period 1945–50 has been the subject of two very detailed monographs, Florentino Portero, *Franco Aislado: La Cuestion Española (1945–1950)* (Madrid, 1989) and Qasim Ahmad, *Britain, Franco Spain and the Cold War, 1945–1950* (New York, 1992; revised edn Kuala Lumpur, 1995).

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During the early years of the war, this was the basis of many heated discussions among British ministers, most notably between Dalton and Hoare. As Minister of Economic Warfare, Dalton appeared to hold the executive high ground. Yet, in the summer and autumn of 1940 Hoare managed to orchestrate forceful support by convincing Lord Halifax and the Chiefs of Staff to advocate his approach. Dalton, on the other hand, not only held a minority view in his own ministry, but was also seemingly unable to use his Labour Party colleagues in the War Cabinet to push through his policy. While Attlee rejected Hoare's demand for the expulsion from Britain of the Spanish Republic's last Prime Minister, Juan Negrín, he also acknowledged Hoare's efforts at keeping Spain neutral.[84] Dalton was unable therefore even to mobilize his Labour colleagues against most of Hoare's views.[85]

As a result tacit, but regular economic support combined with the surveillance of Spain's stocks of essential materials emerged as the favoured solution. At the same time, a second objective, the prevention of any re-export of Allied goods to the Axis, was developed; an objective which the Allies continued to pursue even after the threat of Spain's potential entry into the war had vanished. Indeed, the threat had vanished partly because of Britain's strenuous efforts to support Spain's devastated economy, a support which appeared in marked contrast to the failure of the Nazi regime to furnish the Spanish economy with vital raw materials and the Spanish population with food.

During the course of 1942, a third objective, to deprive Germany of her access to vital Spanish raw materials and goods such as wolfram and woollen goods came to occupy prime position on the British economic warfare agenda. A variety of methods were applied, though pre-emption clearly eclipsed all others. In simple terms, the competitive purchase of Spanish goods and the subsequent dramatic rise in prices resulted in a concerted attack on Germany's spending power. Overall, however, pre-emption was only partially successful because the financial strength of the Allies was adversely affected by heavy expenditure on Spanish goods and Franco proved unwilling to sever his country's economic links with Germany. The recognition of this last fact resulted in an American initiative, the oil embargo of January 1944, which revealed a lack of agreement between the USA and Britain over the way the Franco regime should be treated. The three month embargo failed to convince the Spanish regime to abandon its economic relationship with Germany and

[84] Smyth, *Diplomacy*, p. 58.

[85] On the Labour government's, and particularly Bevin's policy towards Spain see Ahmad, *Britain* (revised edn), pp 22–3, 196, 201–3; see also Alan Bullock, *Ernest Bevin, Foreign Secretary 1945–1951* (London, 1983), pp. 278 and 325.

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demonstrated starkly that even an all-out economic warfare campaign, as conducted in Spain, could not succeed fully if the government of the respective country remained committed to its economic contacts with the enemy. In fact, not even the imminence of Germany's defeat after the Allied invasion of France in June 1944 convinced Franco to break off all business links with Nazi Germany.

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